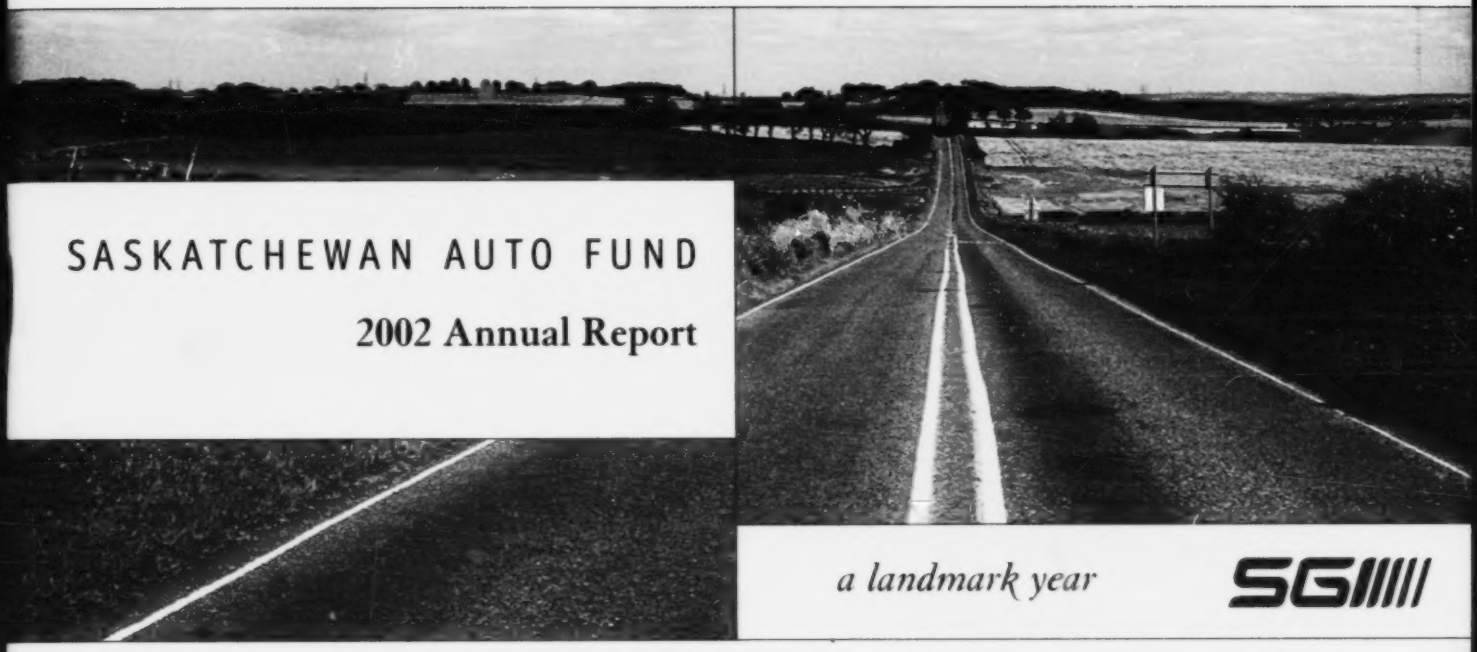

SASKATCHEWAN AUTO FUND

2002 Annual Report

a landmark year

SGI

BOARD OF DIRECTORS

back row: W.J.A. (Bill) Heidt, Robert Fenwick, Don Cody, *Chair*, J. Walter Bardua, *Vice Chair*, Larry Fogg, *President of SGI*
front row: Jim Mills, Nancy E. Hopkins, Joan F.D. Baldwin, Kendra Chesney, Joan R. Bellegarde, Dale Bloom, *Corporate Secretary*
missing: Doug Richardson

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Cheryl Barber, Human Resources
Earl Cameron, Claims
Alan Cockman, Auto Fund
John Dobie, Finance
Randy Heise, Underwriting

Assistant Vice Presidents
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Ken Lerner, Claims
Bob Lundy, Claims
Maureen MacCuish, Communications
Gerry Marsden, Underwriting
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Don Thompson, Finance
Dwain Wells, Systems
Lorne Whippler, Underwriting
Sherry Wolf, Claims

103-04219/

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March, 2003

To Her Honour,

The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of the Saskatchewan Auto Fund for the year ended December 31, 2002, including the financial statements in the form required by the Treasury Board and in accordance with the *Automobile Accident Insurance Act*.

I have the Honour to be, Madam,
Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation

PRESIDENT'S MESSAGE

In 2002, SGI worked hard to respond to the priorities of our customers. For many years, SGI focussed on eliminating a long-standing deficit, which reached a high of $127.9 million in 1997. In 2002, the Corporation was able to turn its attention to better serving our customers.

We responded with new programs and improvements in customer service with no increase in premiums for the second straight year.

In July, Safe Driver Recognition was introduced, providing 350,000 vehicle owners with a discount on their vehicle insurance. The program makes the rating and penalty system simpler to understand, allowing motorists to see how their driving habits affect their auto insurance costs.

We also made improvements to No Fault auto injury insurance and by year-end, all Saskatchewan residents were given a choice between No Fault and Tort Coverage – a first in North America.

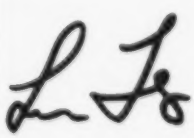
In August, we streamlined accident reporting. The change cuts red tape for drivers involved in accidents and lightens workloads for law enforcement. Our expanded hours for auto claims service in Regina and Saskatoon – our busiest communities – have been well received and we've now completed specialized customer service training for all SGI employees.

SGI continued to work hard promoting road safety, strengthening drinking and driving legislation and introducing innovative awareness campaigns. Our strong partnership with law enforcement, aimed at preventing accidents and saving lives on Saskatchewan roads, continued with expanded programs in 2002.

Simply put, 2002 was a landmark year for SGI.

The goal of the Auto Fund is to provide customers with quality products and service at a reasonable cost.

In 2003, we will continue listening to our customers and working hard to provide the people of Saskatchewan with the excellent service they deserve at among the lowest insurance rates in the country.



Larry Fogg
President

AUTO FUND FINANCIAL

Source: Runzheimer Canada 2002

In order to compare identical coverage criteria, Saskatchewan rates include basic insurance through the Auto Fund, plus extension auto insurance. Scenarios based on: $1,000,000 third party liability, $500 comprehensive deductible, $300 collision deductible.

For the second straight year, Saskatchewan motorists saw no general rate increase in their premiums. The Auto Fund has a long-standing tradition of maintaining among the lowest auto insurance premiums in the country.

The Auto Fund has implemented general rate increases in only four of the last 10 years. In 2002, there was no general increase in premiums and the introduction of Safe Driver Recognition on July 1 meant that 66 per cent of vehicle owners pay less for their insurance. SGI was able to increase the maximum discount from seven to eight per cent on Jan. 1, 2003, meeting its commitment of growing the discounts over time, as it can afford to do so.

In 2002, the Rate Stabilization Reserve posted a $855,000 surplus leaving a reserve balance of $2.8 million at year end.

IMPROVING CUSTOMER SERVICE

During our customer feedback campaign, SGI received important input from our customers. For front-line staff, like Regina Northwest Claims Adjuster Darren Brezinski, the input received has helped improve customer service.

SGI dedicated 2002 to responding to the priorities of our customers.

During our customer feedback campaign in 2001 – SGI directly asked its customers how we could serve them better. Customers told us they wanted SGI to give good drivers discounts on their insurance premiums, improve no fault insurance, provide better service and keep auto rates low. We've responded to all four.

SGI expanded its hours of operation to provide full auto claims service in Regina and Saskatoon. Service is now available from 8 a.m. to 8 p.m., Monday to Friday and from 8 a.m. to 5 p.m., Saturday.

SGI continued working to improve its service with specialized training for all front-line staff, customer service targets in all claims handling areas and 24-hour emergency claims service.

In addition, driver examinations are now available in Saskatoon and Regina on Saturdays from 9 a.m. to 4 p.m.

In August 2002, SGI also streamlined accident reporting procedures. This change means that only about 25 per cent of collisions have to be reported to law enforcement. This frees up valuable resources that can be re-dedicated to higher priorities.

It is estimated these reporting changes will make available the equivalent of 10 full-time police officers who can be used more effectively throughout the province. Eliminating a stop at the police station also means less red tape for motorists.

In 2002, SGI also launched its web site offering information on rates, traffic safety and insurance coverages. The web site is constantly being updated and improved to meet the needs of our customers.

None of these changes would have been possible without the dedication and perseverance of SGI staff. Employees have worked hard in 2002 to ensure our customers receive the quality service and programs they deserve.

We asked how SGI could serve you better.

You told us:

"Give good drivers a discount."

"Keep my auto rates low."

"Fix no fault."

"Improve your service."

We're responding.

- Discounts for safe drivers starting July 1, 2002
- More than 100 changes and improvements to no fault injury insurance, including the choice to opt out
- Extended hours for auto claims service in our busiest communities
- No auto insurance rate hikes in 2002

These are the steps we're acting on your feedback. Watch for more details in the days ahead. In the meantime, if you have any questions or comments, please call us at 1-800-667-4868. We're listening.

SGI

SAFE DRIVER RECOGNITION

Introduced in July, the Safe Driver Recognition program rewards safe drivers with a discount on their vehicle insurance.

Simply put, the safer you've driven, the more likely you receive a discount. In fact, two out of three Saskatchewan vehicle owners are currently receiving some level of discount on their insurance under Safe Driver Recognition; that's about 450,000 people in Saskatchewan.

Approximately 58 per cent of vehicle owners in the province qualified for the maximum discount available and on Jan. 1, 2003, SGI increased the maximum discount under Safe Driver Recognition from seven to eight per cent.

Individuals who co-own private or farm passenger vehicles are also now eligible to receive discounts on their vehicle insurance under the Safe Driver Recognition program and SGI is sending pro-rated refunds to those customers who have renewed their co-owner registrations since the program was first introduced.

SGI customers asked for a discount on vehicle insurance, and we've responded.

SAFETY RATING SCALE

PENALTY ZONE
SAFETY ZONE
-10 -9 -8 -7 -6 -5 -4 -3 -2 -1
1 2 3 4 5 6 7
PENALTY PER INCIDENT
NEUTRAL
Basic Insurance
PREMIUM
VEHICLE INSURANCE DISCOUNT
$250 $225 $200 $175 $150 $125 $100 $75 $50 $25
1% 2% 3% 4% 5% 6% 7%

Add $25 for every additional demerit point, to a maximum of $500.

As long as you're moving towards the Safety Zone, you never pay a penalty.

CHOICE IN PERSONAL AUTO INJURY INSURANCE

SGI continued responding to its customers' priorities by improving No Fault insurance and offering a choice in auto injury coverage. On Dec. 16, 2002, everyone in Saskatchewan was able to choose between their current No Fault Coverage and Tort Coverage.

The coverage took effect on Jan. 1, 2003. Both No Fault and Tort are quality insurance products and are currently the same price.

The choice between these two quality auto injury insurance products is not limited to vehicle owners. All Saskatchewan residents 18 and over can choose their coverage and parents can pick the coverage for their children.

To ensure no Saskatchewan person is without injury insurance coverage, all people are covered by No Fault Coverage unless they choose to opt out and pick Tort Coverage.

SGI worked hard to make the process simple for Saskatchewan people. To change coverages, residents can fill out a one-page declaration and mail it to SGI or drop it off at any of the 450 motor licence issuers in the province. You can switch your coverage as many times as you want at no cost.

Responding to customers with a choice between two quality insurance products was an innovative solution making Saskatchewan the first jurisdiction in North America to offer a choice between Tort and No Fault Coverage.

You've got a choice
in auto injury insurance.
Starting in 2003, everyone in Saskatchewan can choose between their current NO FAULT injury coverage and TORT injury coverage from SGI.
To select TORT coverage, simply visit your motor licence issuer.
To keep NO FAULT coverage, no action on your part is required.
Some things you should know:
• Both are quality insurance products and are equally priced.
• Even if you don't own a vehicle or drive, you can still choose.
• You can change at any time, at no cost.
• If you're undecided, you continue to be insured with your current coverage.
Help and information are available:
• Read the insurance guide in your mail
• Call SGI at 1-800-667-9868
• Visit our web site at www.sgi.sk.ca
• Talk to your motor licence issuer
SGI
Guide to Choosing Personal Auto Injury Insurance

PROMOTING SAFER SASKATCHEWAN ROADS

As the main auto insurer in Saskatchewan, SGI takes a lead role in promoting traffic safety in the province. Last year was another busy year for traffic safety with many new programs and campaigns being launched in areas of impaired driving, child restraints and seat belt use in rural Saskatchewan.

The specific safety issues that SGI focuses on are determined by ongoing reviews of traffic statistics. Most programs fall into five key areas: impaired driving, new drivers, seat belt use, high-risk drivers and high-risk intersections.

TRAFFIC SAFETY PRIORITY AREA	TARGETS	PROGRAM RESULTS TO DATE (2002)
Impaired Driving	40% reduction by 2010 in the proportion of fatal accidents involving alcohol compared to average from 1996-2001.	8% reduction for 2002
New Drivers	10% reduction in number of crashes involving new drivers compared to the average at the start of the probationary driver's program in 1996	3.7% increase since the implementation of the probationary driver's program in 1996
Seat Belt Use	Maintain Saskatchewan ranking among top 3 provinces for seat belt use	3rd place in Canada – 91.7%
High-Risk Drivers	Reduce at-fault accidents by 60 accidents per 100 drivers per year	Reduction of 73 accidents per 100 drivers in 2002
High-Risk Intersections	Benefit to cost ratio of 2 to 1 within two years of intersection improvements	Improved intersections have recorded a ratio over 2 to 1 within two years

IMPAIRED DRIVING – LEGISLATIVE ENHANCEMENTS

Alcohol is the number one contributing factor in fatal crashes in Saskatchewan and is cited as a factor in four out of every 10 fatal crashes. To combat this serious issue, enhancements made in recent years mean Saskatchewan has one of the toughest and most comprehensive packages of drinking and driving legislation in the country.

IS IT REALLY WORTH THE RISK?
The Possible Consequences of Drinking and Driving

- **Licence suspension of 1-5 years**
- **Fines of at least $600 with no maximum**
- **Mandatory addiction screening and treatment**
- **Jail time up to 14 years**
- **Immediate 90-day roadside administrative suspension**
- **Injury or death to yourself or someone else**
- **Criminal record**

IMPAIRED DRIVING – PROMOTION, AWARENESS AND EDUCATION

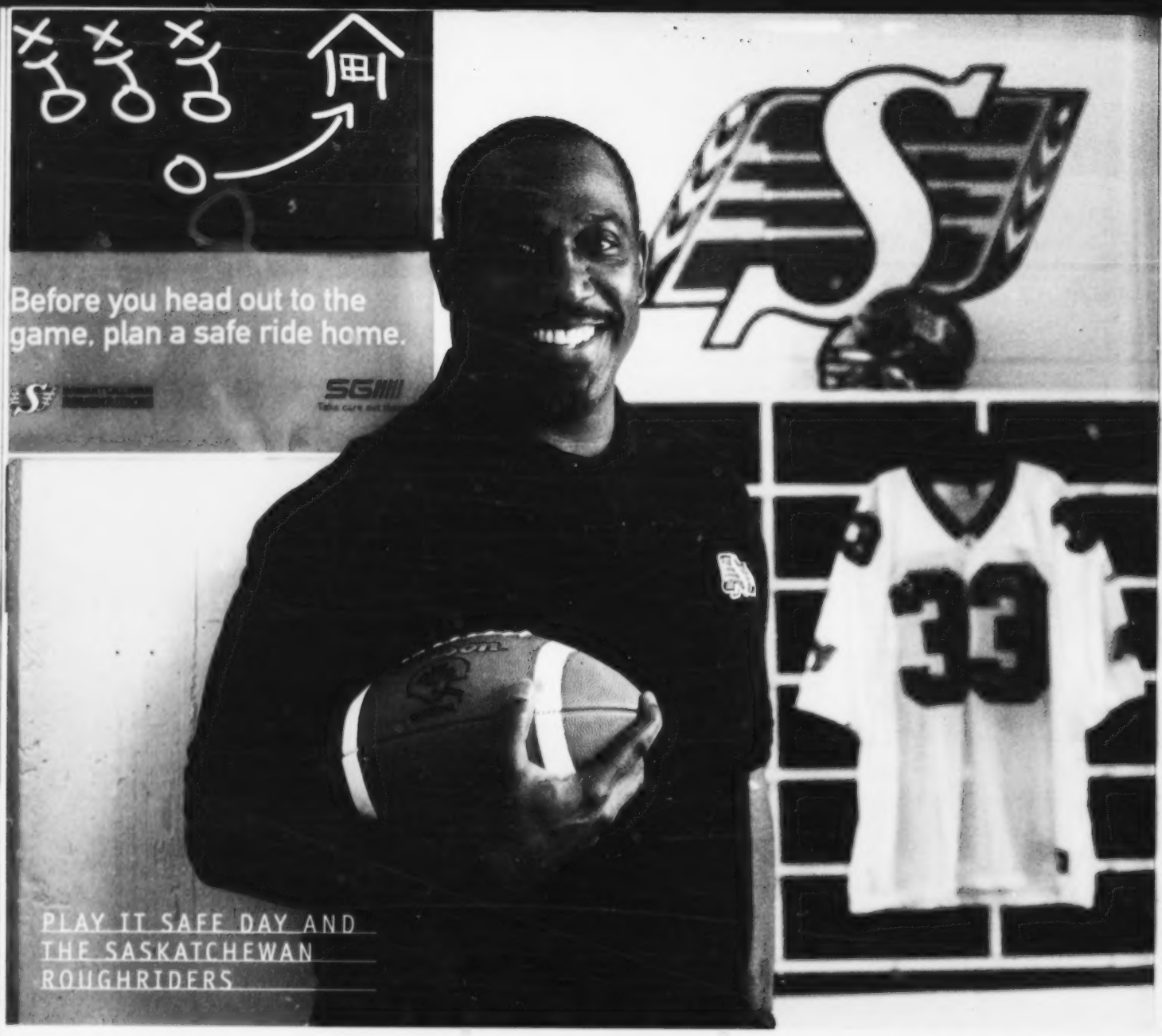
Promoting the risks of drinking and driving and focusing on the positive outcomes of choosing not to drink and drive is a key objective for SGI's traffic safety program. Our efforts have paid off as fewer people on average are being killed and injured on Saskatchewan roads by impaired drivers.

In 2002, SGI continued its strong relationship with Students Against Drinking and Driving (SADD) and the Saskatchewan Safety Council, providing operating funding for these organizations. SGI's partnership with SADD was very successful in 2002 with the continuation of the *Drinking and Driving is Murder* campaign.

We again ran the *Santa's Little Helpers* awareness campaign aimed at preventing drinking and driving during the Christmas season. SGI also sponsored free bus service – *Ding in the New Year* – in several communities on New Year's Eve, which was used by hundreds of Saskatchewan residents.

To combat impaired driving, SGI also funds the Drive Without Impairment program, addictions screening and counselling and various awareness campaigns.

This new campaign encourages us all to plan on getting home safely after drinking by having a designated driver. The campaign, launched in April, celebrates those people who always plan a safe ride home.



SGI's Play It Safe Day!

SGI continued its partnership with the Saskatchewan Roughriders by hosting Play it Safe Day at Taylor Field.

Hundreds of young fans attended the event, which promoted safety for kids. The event featured many SGI employees and Rider players as volunteers.

The Riders also spread SGI's drinking and driving message at all 10 home games through signs, on-field promotions and public service announcements.

Spectators at each home game were once again treated to an on-field fan participation promotion utilizing fatal vision goggles to illustrate the effect alcohol has on co-ordination. Although humourous, the promotion is a stark reminder that drinking and driving don't mix.

By the end of the Rider's season, head coach and program spokesperson Danny Barrett had reminded over 210,000 Taylor Field patrons to always plan a safe ride home.

SGI'S PARTNERSHIP WITH LAW ENFORCEMENT

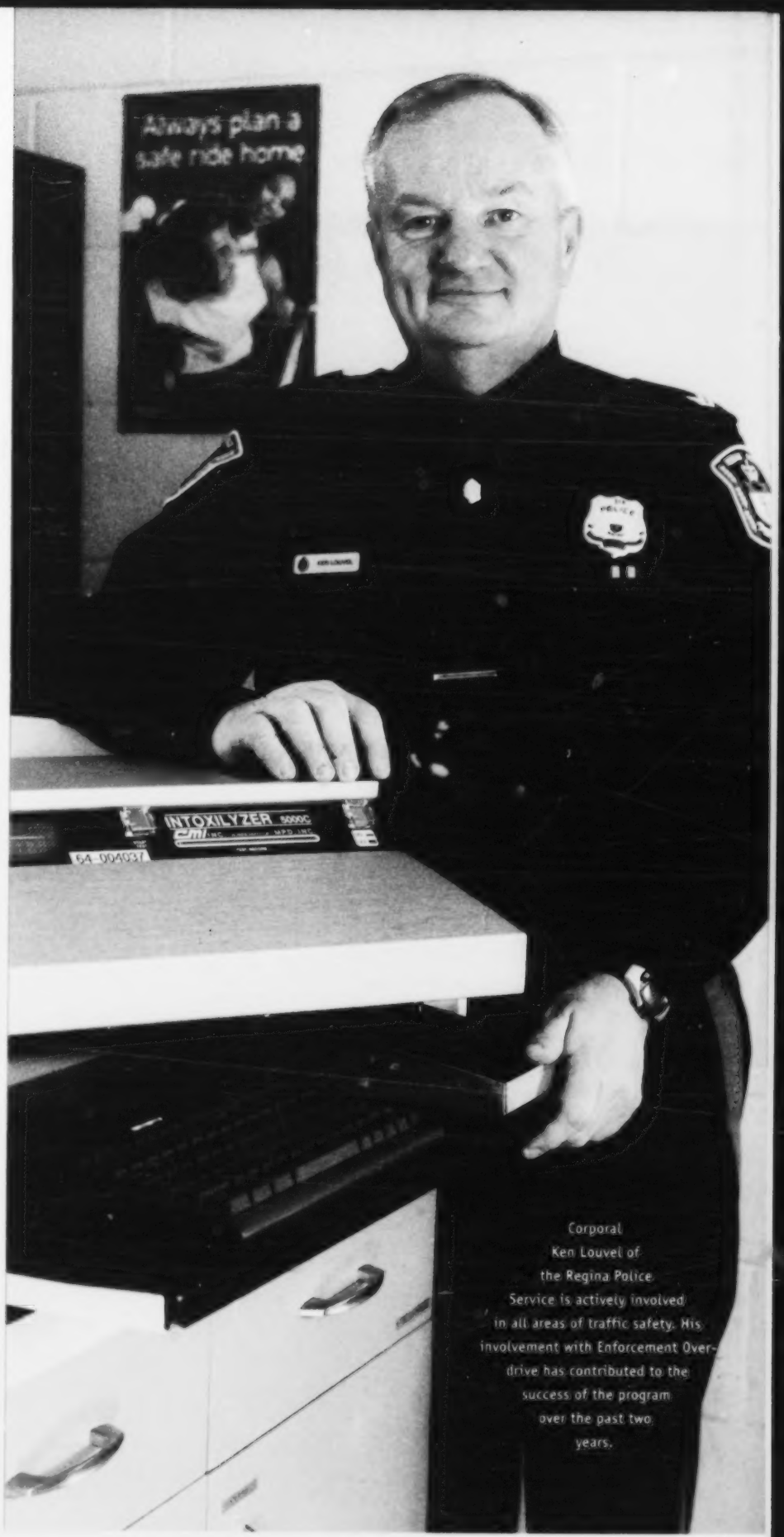
SGI's partnership with law enforcement is critical to keeping Saskatchewan's roads safe for everyone.

The Enforcement Overdrive program, funded by SGI, means police can operate additional check stops for drinking and driving. Enforcement Overdrive was first introduced in Regina in 2001 and the program grew in 2002 as the Saskatoon Police Service began operating the program in that city.

In 2002, over 30,000 vehicles were checked resulting in over 300 impaired driving related charges being laid in both Regina and Saskatoon.

One of the ultimate goals of the program is to reduce the number of people injured and killed in drinking and driving accidents. Since the program began in Regina in 2001, there has been a 29 per cent reduction in the average number of people injured in drinking and driving accidents compared to the numbers from 1998 to 2000.

SGI also continued its role in the Selective Traffic Enforcement Program (STEP), a multi-agency committee dedicated to road safety in Saskatchewan. The committee meets twice a year to discuss traffic safety issues and traffic enforcement priorities. Members include law enforcement agencies across the province, Justice and SGI. The results have come in the form of awareness campaigns, proposals for legislative change to enhance road safety and safety blitzes.



Corporal Ken Louvel of the Regina Police Service is actively involved in all areas of traffic safety. His involvement with Enforcement Overdrive has contributed to the success of the program over the past two years.

PROMOTING TRAFFIC SAFETY ON THE SASKATCHEWAN SPORTS SCENE

SGI celebrated a winning season in 2002 by promoting important traffic safety messages through a variety of sports organizations across the province.

SGI continued reaching out to communities on a grassroots level on the importance of road safety.

Whether you are a participant, a parent or a spectator, chances are you make regular visits to the local rink, field or gymnasium. We've found there is no better place to give reminders on wearing seat belts, never driving after drinking and pedestrian safety.

This year, SGI continued its relationship with the Saskatchewan Junior Hockey League and added a new component to the partnership. Together with representatives of Saskatchewan Emergency Medical Services, SJHL players took part in a training seminar to prepare themselves as SGI ambassadors of road safety. Assisted by their local EMS workers, players visited elementary schools in their communities to conduct a classroom presentation on safety and enjoy a fun floor hockey game with students.

SGI also teamed up with the Saskatoon Blades, the Prince Albert Raiders and the Moose Jaw Warriors. All of the teams added road safety to their community initiative programs.

Students and athletic spectators are important audiences for SGI's traffic safety promotion. Our traffic safety messages appeared in programs for the University of Regina Rams football club, the University of Regina Athletic Department, the University of Saskatchewan Huskies and the Saskatchewan High Schools Athletic Association.

Saskatchewan hosted some major sporting events in 2002, such as the Continental Cup of Curling and the Canada Cup Baseball Championships. SGI spread its message on the risks of drinking and driving at all of these events by encouraging everyone to plan a safe ride home.

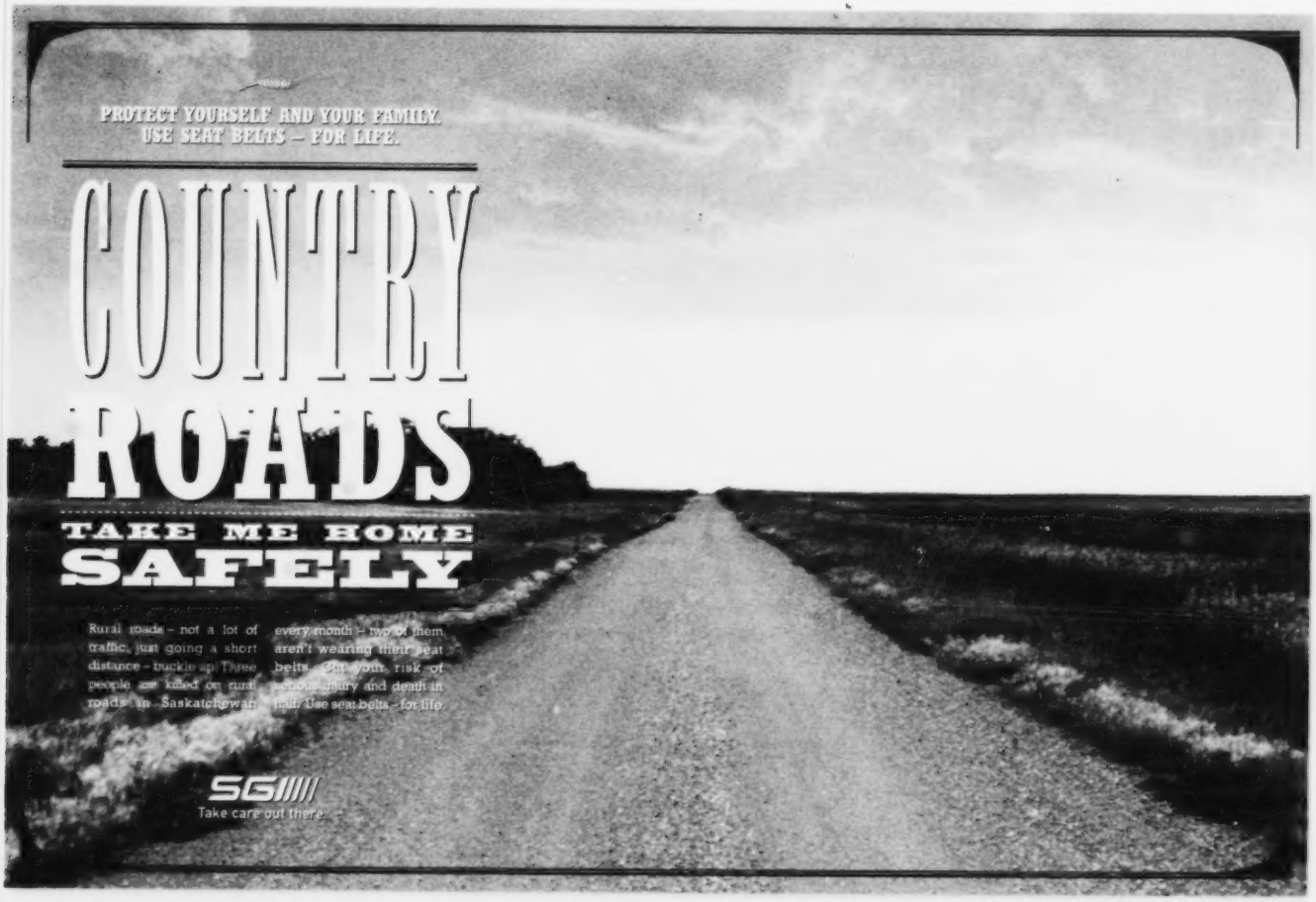
SEAT BELT USE IN RURAL SASKATCHEWAN

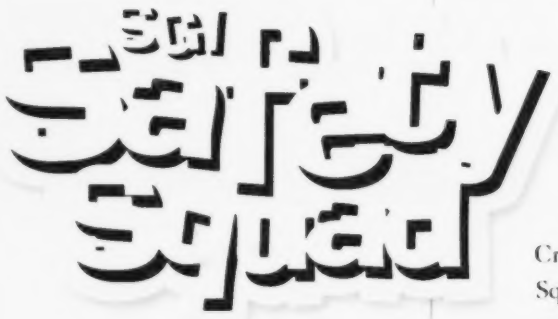
It takes about five seconds to put on a seat belt, but it seems that some drivers, particularly in rural Saskatchewan, just don't take the time to buckle up.

Although Saskatchewan has improved overall in seat belt use, the usage rate in rural Saskatchewan continues to present challenges. Those killed or seriously injured on a rural road are least likely to be using a seat belt.

To help increase the rate of seat belt use in rural Saskatchewan, SGI introduced the Country Roads awareness campaign, which uses radio as the main medium to remind rural families, especially during the busy spring and fall season, to always buckle up.

- **Almost 50 per cent of vehicle occupants killed in Saskatchewan in 2001 were unbelted**
- **In 2001 on rural gravel roads, 56 per cent of the occupants killed were unbelted**
- **On First Nation roads that number was 81 per cent in 2001**


PROTECT YOURSELF AND YOUR FAMILY.
USE SEAT BELTS – FOR LIFE.
COUNTRY
ROADS
TAKE ME HOME
SAFELY
Rural roads – not a lot of traffic, just going a short distance – buckle up! Three people are killed on rural roads in Saskatchewan every month – two of them aren't wearing their seat belts. Cut your risk of serious injury and death in half. Use seat belts – for life.
SGI
Take care out there.



SGI SAFETY SQUAD

The Safety Squad consists of two teams of summer students who attend events taking place around the province. During the summer, the Safety Squad travels to community events such as fairs, exhibitions and pow-wows. The goal is for kids to learn about traffic safety and have fun.

Created in 2001, the Safety Squad has been a great success, reaching hundreds of children with important messages about bicycle safety, pedestrian safety, seat belts and more. For adults, the Safety Squad offers child safety seat education across the province.

In 2002, the Squad attended 76 community events and 39 child restraint clinics all over Saskatchewan.

CHILD RESTRAINT CAMPAIGN

Making sure children are safely secured in moving vehicles is a complicated and important process. Annual surveys show that half of all kids in Saskatchewan eight and under aren't properly restrained when they're in a vehicle.

SGI's Child Restraint Clinic program is designed to ensure Saskatchewan children travel in the car safely and securely.

Between May and September there were 89 clinics held in 66 communities. Almost 2,000 child restraints were checked. In the past five years, over 10,000 child restraints have been checked in communities all across the province.

DRIVER DISTRACTION

Doing two things at once isn't such a big deal. We do it all the time – walking and talking, jogging and listening to music, or singing and dancing. However, driving requires you to do more than two things at once – steering, braking, shifting gears and watching for traffic all occur at the same time. When you add other distractions to that list, the results can be dangerous.

Some of the most common driver distractions include objects or events outside the vehicle, distraction from passengers, looking for or at something in the vehicle, adjusting radio, climate or vehicle controls, smoking and eating or drinking. With the growth in the cell phone industry, talking on the phone while driving has also become an important safety concern.

SGI is working to raise awareness of this growing traffic safety issue.

SGI's driver distraction awareness campaign is a humourous, but effective campaign that promotes paying attention to your driving rather than the numerous distractions you may encounter.

Driver distraction is responsible for about 25 per cent of all accidents on Saskatchewan roads and is cited as the second major contributing factor in fatal collisions.

OUTLOOK

Saskatchewan motorists have told us they want to see changes and we're responding.

In 2003, SGI will implement a discount program for commercial drivers and will continue to increase discounts under Safe Driver Recognition, as we can afford to do so.

SGI will continue working hard to improve service and act on our customers' feedback with new and innovative training for SGI employees.

SGI takes its responsibility to promote safer roads and communities seriously and will keep dedicating two per cent of premiums written to this important priority in 2003. Drinking and driving, driver distraction, seat belt use in rural Saskatchewan, safely securing children and new drivers will be the Corporation's main areas of focus over the coming year.

SGI projects a continuation of lower than average investment earnings in 2003. The year will be challenging, but the Saskatchewan Auto Fund is well positioned to meet the challenges and will continue to provide quality products and services to Saskatchewan motorists at among the lowest rates in the country.

BALANCED SCORECARD

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI. The Auto Fund provides vehicle registrations, driver's licences and related services for 830,000 vehicles and 660,000 drivers.

The Fund is operated on a break-even basis over time. The Fund is not a Crown Investments Corporation subsidiary. SGI acts as the administrator of the Fund.

SGI employs more than 1,500 people, operates 21 claims centres and five salvage centres in 13 communities across the province. The Fund has developed a set of short- and long-term objectives and targets that make up our Balanced Scorecard.

The Auto Fund has met or exceeded its targets in the customer service and learning and innovation areas for 2002. Due to poor markets and lower than average investment earnings, the Auto Fund dipped slightly below the financial target for 2002. The Fund continues to improve in the public policy category, exceeding the target for women in under-represented roles, aboriginal and visible minority areas.

The Fund's performance is measured against the following key objectives:

	STRATEGIC OBJECTIVE	STRATEGIC MEASUREMENT	2002 TARGET	2002 ACTUAL
Financial	Maintain an adequate Rate Stabilization Reserve (RSR)	RSR balance equal to 17% of claims incurred	$3.1M	$2.8 million
Customer Service	Deliver lowest average rates in Canada	Runzheimer survey results	1st or 2nd lowest average private vehicle rates in Canada	2nd lowest. Manitoba lowest (as of March 2002)
	Claims customer satisfaction	Claims customer service survey	90%	92%
Learning and Innovation	Improve business effectiveness through corporate training	Staff receiving specialized service training	100% of staff trained	100% of staff have received training
Public Policy	Economic diversification and growth	Per cent of dollars spent in Saskatchewan	90%	80.3%
	Reduce fatalities and serious injuries due to motor vehicle crashes	Reduction in the 1995-1999 average number of fatalities of 158	15% reduction from the 1995-1999 average	0% change (average of 2000-2001 fatalities compared to 1995-1999 average)
		Reduction in the 1995-1999 average number of serious injuries of 2,668	3% reduction from the 1995-1999 average	6% reduction (average of 2000-2001 serious injuries compared to 1995-1999 average)
	Representative workforce	Women in under-represented categories	47%	50.7%
		Aboriginal	7.5%	8.2%
		People with disabilities	9.7%	7.5%
		Visible minorities	2.9%	3%

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

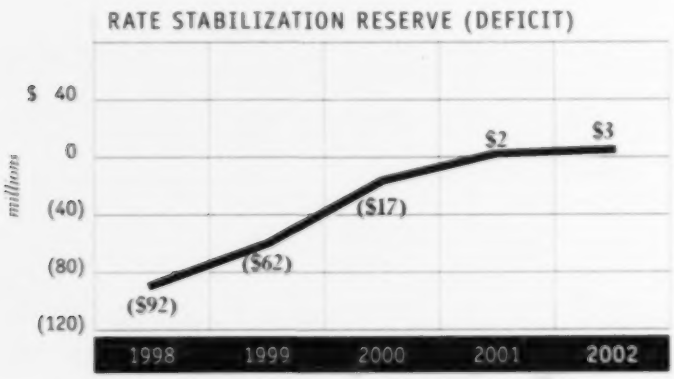
This report focuses on the financial position and operating results of the Saskatchewan Auto Fund (the Fund). The information in this section should be read in conjunction with the Fund's financial statements and accompanying notes.

The Saskatchewan Auto Fund is the compulsory automobile insurance program administered by SGI on behalf of the people of Saskatchewan. The Fund provides vehicle registrations, driver's licences and related services to all Saskatchewan motorists. The Fund operates on a break-even basis over time, and neither receives money from, nor pays annual dividends to, the provincial government.

The Fund provides coverage for damage to or loss of an insured's vehicle, subject to a deductible, as well as up to $200,000 liability for property damage and/or injuries caused to another person. The Fund also provides all Saskatchewan residents with personal auto injury coverage.

2002 OVERVIEW

The Auto Fund recorded a modest surplus of $855,000 in 2002, allowing the Rate Stabilization Reserve (RSR) to remain in a surplus position of $2.8 million.



The surplus in 2002 of $855,000 is down significantly from the $18.8 million surplus realized last year. The decline of $17.9 million is almost entirely from a decline in investment earnings. Investment earnings for the Auto Fund were substantially lower in 2002 from the five-year average due to the volatility in investment markets that has affected insurance companies across Canada.

In 2002, the Auto Fund made significant changes to better respond to its customers. The Safe Driver Recognition program was introduced July 1. The program places all Saskatchewan drivers on a safety rating scale based on driving history. Safe drivers receive a discount on their vehicle insurance premiums to a maximum of 7% in 2002. Drivers who cause accidents or have specified traffic convictions or traffic-related Criminal Code convictions pay a financial penalty. The revenue collected in financial penalties assists in offsetting the costs of the discounts.

Major changes were made to Saskatchewan's auto injury insurance program. No Fault Coverage was improved in August 2002 based on the recommendations of the Personal Injury Protection Plan Review Committee. Medical, rehabilitation and permanent impairment benefits were increased. Enhancements were made to income replacement and death benefits. The right to sue for non-economic loss was incorporated in very limited and specific circumstances, such as when an at-fault driver is convicted of impaired driving. In total, about 100 changes were made to No Fault Coverage based on the recommendations of the independent committee, which reviewed the coverage.

On Dec. 16, 2002, all Saskatchewan residents could choose between No Fault Coverage and Tort Coverage, with the coverage taking effect Jan. 1, 2003. Tort Coverage provides more limited benefits than those available under No Fault Coverage, but allows those who are injured to sue the at-fault party for economic and non-economic losses, including pain and suffering. This Tort Coverage compares favourably to tort auto injury products offered in other Canadian provinces. Saskatchewan is the first jurisdiction in North America to offer residents a choice between no fault and tort coverages. Most jurisdictions provide only a single tort auto injury insurance product. There are a few American states that provide residents with a choice between two tort coverages, but none that offer a choice between a no fault and a tort product.

Saskatchewan remains a 'no fault' province. Residents continue to be covered by No Fault unless they choose Tort Coverage. Residents from out-of-province injured in Saskatchewan and not at fault for the accident are covered by No Fault.

Both products are being offered at the same price. Going forward, costs will be allocated separately. Upon acquiring sufficient information on claim costs over time, it is the Corporation's intent to price the products to sufficiently cover the claim costs for that particular coverage.

The Auto Fund is responsible for traffic safety, including legislation and regulations, remedial programs and safety promotion. In 2002, regulations to begin automatic 90-day administrative driver's licence suspensions for impaired driving related offences took effect. Saskatchewan's legislation on drinking and driving is now among the toughest in the country. In addition, new traffic safety awareness campaigns were developed to target key safety issues, including drinking and driving, driver distraction and lack of use of seat belts in rural Saskatchewan.

ACTUAL VERSUS LAST YEAR

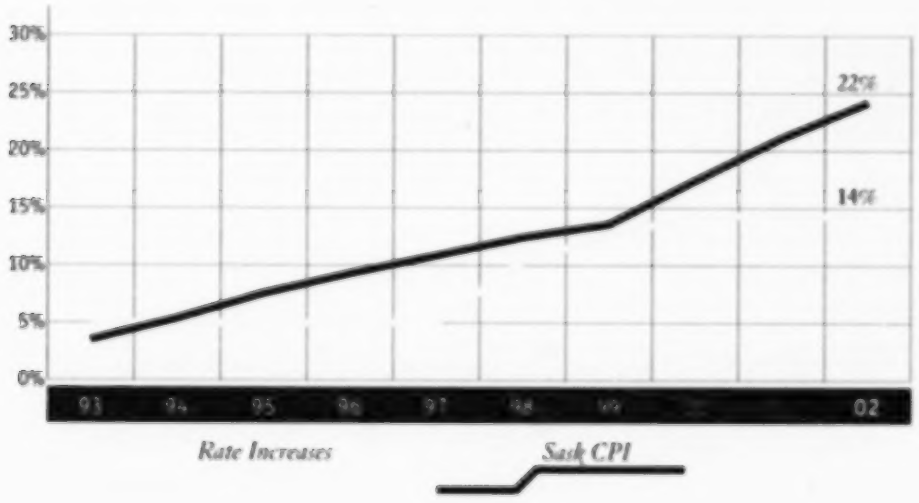
Revenues

Premiums written increased by 4.9% in 2002 to $486.4 million. With no rate increase in 2002 and discounts introduced as part of the Safe Driver Recognition program commencing July 1, 2002, the majority of the increase in premiums is due to a newer vehicle population which costs more to insure combined with a 1.2% growth in insured vehicles.

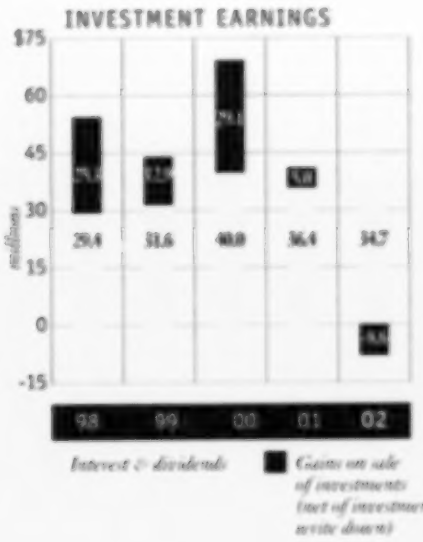
In 2002, the maximum discount under Safe Driver Recognition was 7%. The cost of these discounts in 2002 was just under $10.0 million, which is equivalent to a rate decrease of 4.3%.

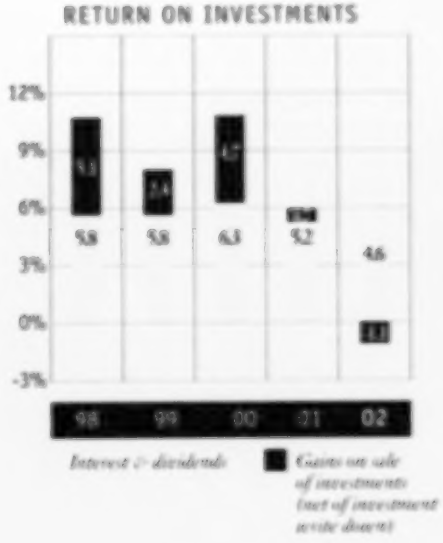
A major objective for the Auto Fund is maintaining among the lowest automobile insurance rates in Canada. Even with the large deficit of over $128.0 million that had accumulated by 1997, the Auto Fund has been able to keep rate increases reasonable with general increases in only four of the last 10 years. The cumulative total increase is 13.75%, compared with Saskatchewan CPI growth of 22%.

On an ongoing basis, the Auto Fund forecasts its revenue and expenses to determine if a rate adjustment is required. If one is required, the Auto Fund submits its proposal to the Saskatchewan Rate Review Panel. This is the second consecutive year with no general rate increase.



Investment earnings were down significantly in 2002 from 2001 and decreased dramatically from record-setting earnings of over $69.0 million in 2000. Earnings totaled $26.1 million in 2002, compared to $41.4 million in 2001. The decline is from lower gains on the sale of investments, investment write-downs on equity investments of nearly $10.0 million and lower interest rates. The 2002 rate of return on the Auto Fund's investment portfolio of $760.1 million was 3.5%.





Other income consists of fees charged to insureds for utilizing the AutoPay and Short-Term Vehicle Registration and Insurance payment option programs, as well as net income from the Salvage division.

Vehicle owners who choose AutoPay or Short-Term payment options are charged a fee to cover administration costs and lost investment income. These fees generated $12.6 million in revenue in 2002, compared to $12.0 million in 2001.

The Auto Fund operates a Salvage division with branches in five communities in Saskatchewan. SGI Salvage reduces the Auto Fund's claim costs by selling recycled automobile parts and whole vehicles from total loss claims. Net income in 2002 was $4.5 million, compared to $4.1 million in 2001.

Claims

Claims incurred increased to $435.3 million, a 3.6% increase from claim costs of $420.0 million in 2001. Increased claim costs in 2002 are from damage claims, which increased by $18.5 million due to an increase in collision claims and increased costs to repair a newer vehicle population. The cost of injury claims declined by $4.4 million or 2.9% despite program enhancements and higher benefits paid to claimants from income replacement and death benefits, primarily due to a $32.0 million redundancy on prior year claims. Income replacement and death benefits are paid on a net of tax basis and therefore as tax rates decrease, higher benefits are paid to claimants. Injury liability claims, which are primarily out-of-province claims, also declined slightly by 1.1% or $300,000.

The Auto Fund provides basic automobile insurance to all Saskatchewan residents. Therefore, it does not incur marketing and underwriting costs to the same extent that private insurers do. As well, the Auto Fund operates on a break-even basis over time and does not price its insurance products to earn a profit. These factors allow the Auto Fund to return more of each premium dollar to customers through claim payments. For example, on average over the last five years, the Auto Fund has returned 93 cents of each premium dollar to customers, compared to the insurance industry average of only 79 cents.

Expenses

The Auto Fund's expenses excluding claim costs totalled $77.1 million, a $5.7 million increase from 2001.

Traffic safety program spending increased by $982,000 to $9.7 million in 2002, representing 2.1% of premiums compared to 1.9% in 2001. Over the last several years, the Auto Fund has gradually been moving towards a target of spending 2% of each premium dollar on traffic safety programs. Our investment in these programs is monitored against targets. If the initiatives are not having the desired impact, changes to the program are made to ensure these investments are working to reduce the frequency and severity of traffic accidents.

Issuer fees totaled $15.4 million in 2002, increasing from $14.6 million in 2001. The increase in these costs is primarily due to issuer rate increases implemented in January and September of 2002.

Premium taxes, which are 5% of premiums, increased by $949,000 in 2002 due to the growth in premiums.

Administrative expenses increased by $2.9 million in 2002 due to inflationary increases in salaries and benefits, one-time spending on public education of injury choice options and decreased photo ID income. As mentioned previously, the Auto Fund does not spend as much as the insurance industry to market or underwrite its product and therefore has lower administration costs compared to the industry. While administrative expenses increased in 2002, the costs represent only 6% of each premium dollar, while the insurance industry spends nearly twice as much to administer automobile insurance.

ACTUAL VERSUS BUDGET

The Auto Fund prepares an annual forecast each fall for the upcoming fiscal year. The plan, which is approved by the Board of Directors, is developed using long-term averages combined with known and expected information for the upcoming year.

The Auto Fund's 2002 budget developed in the fall of 2001 anticipated a surplus of $2.6 million in 2002, compared to an actual surplus of $955,000, a variance of only $1.7 million. Most revenue and expense categories were close to forecast with the exception of the Auto Fund's most volatile categories, claims incurred and investment earnings.

Actual 2002 claim costs of $495.3 million were $27.3 million lower than budget of $462.6 million. Injury claims were $27.8 million less than expected, due to a $32.0 million redundancy in prior year claims. Injury liability claims were also slightly lower than budget ($758,000) due to a lower cost than expected for each claim.

Investment earnings were significantly lower than forecast for 2002. The budget anticipated earnings of $60.2 million compared to actual earnings of $26.1 million, $34.1 million less than expected. Interest and dividends were $16.7 million lower than budget, gains on the sale of investments were $10.0 million lower than expec t and write-downs on investments were $7.4 million more than budget.

LIQUIDITY

The Auto Fund purchases reinsurance to protect against major catastrophes adversely affecting the RSR. With the Auto Fund now in a surplus position, combined with the size and conservative nature of the investment portfolios, the Corporation is confident that it can meet all liabilities as they become due.

RISK MANAGEMENT

Catastrophe Exposure

The Auto Fund is exposed to losses arising from catastrophic events. With the Auto Fund insuring all vehicles in the province, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk it purchases catastrophe reinsurance protection, which reduces the potential impact from major losses as a result of catastrophic events.

Provision for Unpaid Claims

The Auto Fund maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported. These provisions are estimates and the ultimate payment on these claims will differ somewhat from the estimate. The Auto Fund faces the risk that the ultimate payment on these claims will be materially different than the established provision.

Investment Returns

Investment earnings are used to reduce rates for vehicle owners in Saskatchewan. In 2002, investment earnings represented 9% of total revenues for the Auto Fund, compared to 8% in 2001. These earnings can fluctuate significantly from year to year based on returns from capital markets over which the Corporation has little control. To mitigate these fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of three investment managers.

Each of the investment managers follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Finance and Investment Committee. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

OUTLOOK

In 2002, the Auto Fund introduced significant program changes to respond to the priorities of Saskatchewan motorists. New programs, like Safe Driver Recognition, and enhancements to existing programs, like No Fault Coverage and the introduction of choice in auto injury insurance, were implemented. The Auto Fund was able to do so without a general rate increase and still meet its goal of breaking even over time, with a small surplus of $955,000. However, it is the belief of the Corporation, that the Auto Fund requires a rate increase each and every year approximating the rate of inflation. Without an increase, the Auto Fund will again be in a deficit position.

There has been no general rate increase for two years. The Rate Review panel denied a rate increase to the Auto Fund in 2001.

While no new major programs are anticipated in 2003, the Auto Fund will introduce a program to provide discounts in auto insurance premiums for commercial vehicles. Work will continue to improve customer service and deliver innovative traffic safety initiatives to address key issues in the area of drinking and driving, driver distraction, child passenger safety and new drivers.

CORPORATE GOVERNANCE

AUTHORITY (SASKATCHEWAN AUTO FUND):

The Saskatchewan Auto Fund is a compulsory provincial vehicle insurance program administered by SGI pursuant to the powers granted to SGI under the *Saskatchewan Government Insurance Act,* 1980, and the *Automobile Accident Insurance Act.* The SGI Board of Directors oversees the administration of the Auto Fund and holds management accountable for the Auto Fund's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Crown Investments Corporation, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

COMMITTEES:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Legislative Review Committee
- Finance and Investment Committee
- Governance Committee
- Human Resources Committee

TSE GOVERNANCE GUIDELINES (PROPOSED)

(1) The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters:

(a) adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business;

SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergoes a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board has delegated to the Audit and Legislative Review Committee the responsibility for review and assessment of the nature and extent of the risks facing the Company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks

acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

(c) succession planning, including appointing, training and monitoring senior management;

The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President on an annual basis. The Committee recommends to the Board a senior management succession plan.

(d) a communication policy for the corporation; and

The Corporation has a formal, written communication policy which has been approved by the Board of Directors.

The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

(e) the integrity of the corporation's internal control and management information systems.

The Board has delegated to the Audit and Legislative Review Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

(2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder.

There are 11 individuals on the SGI Board of Directors. Of those 11, nine are unrelated. Larry Fogg, President and Chief Executive Officer, and Kendra Chesney, SGI Information Technology Analyst, are the only related Board members.

(3) The application of the definition of "unrelated director" to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion.

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

Don Cody, Chair: Unrelated
Mayor, City of Prince Albert, SK

J. Walter Bardua, Vice Chair: Unrelated
Retired Insurance Professional

Doug Richardson: Unrelated
Lawyer, McKercher, McKercher and Whitmore

Nancy E. Hopkins: Unrelated
Lawyer, McDougall Gauley

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardner Park Clinic

Jim Mills: Unrelated
Mayor, Elrose, SK

Larry Fogg: Related
President, SGI

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
President, TGS Properties Ltd.

Kendra Chesney: Related
Information Technology Analyst, SGI

(4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside directors; one is related.

(5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is responsible for implementing the process and undertakes the evaluation on an annual basis.

(6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation (CIC) provides, on an annual basis, a comprehensive training program for all Crown corporation directors.

(7) Every board of directors should examine its size and, where appropriate, a program to establish a board size which facilitates effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

(8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being a director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

(9) Subject to guideline 13, committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees may include one or more inside directors.

The Board Committees are comprised entirely of outside directors. All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Governance Committee.

(10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines.

The Board has formed a Governance Committee which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

(11) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, including the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

The CEO has a job description which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

(12) Every board of directors should implement structures and procedures which ensure that the board can function independently of management. An appropriate structure would be to

(i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or

The Chair of the Board is an outside, unrelated director.

(ii) assign this responsibility to an outside director, sometimes referred to as the "lead director." The chair or lead director should ensure that the board carries out its responsibilities effectively which will involve the board meeting on a regular basis without management present and may involve assigning the responsibility for administering the board's relationship to management to a committee of the board.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

(13) The audit committee of every board of directors should be composed only of unrelated directors. All of the members of the audit committee should be financially literate and at least one member should have accounting or related financial expertise. Each board shall determine the definition of and criteria for "financial literacy" and "accounting or related financial expertise." The board should adopt a charter for the audit committee which sets out the roles and responsibilities of the audit committee which should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

The Audit and Legislative Review Committee is comprised entirely of outside, unrelated directors. The chair of the Committee is a chartered accountant, and all members of the Committee are financially literate. The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit Committee itself and the Governance Committee.

The Audit and Legislative Review Committee meets at least annually with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditors' review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

(14) The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

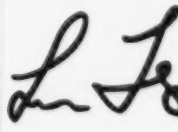
The financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the financial statements fairly reflect the financial position, results of operations and cash flows of the Saskatchewan Auto Fund (the Fund) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Fund. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Fund to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Fund and the nature of the insurance policies. The actuary also makes use of management information provided by the Fund and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors of Saskatchewan Government Insurance, administrator of the Fund. An audit committee, composed of members of the Board of Directors, meets periodically with financial officers of Saskatchewan Government Insurance and the external auditors. These external auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Fund's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

John Dobie
Vice President – Finance
Saskatchewan Government Insurance
as Administrator of the Saskatchewan Auto Fund

February 14, 2003

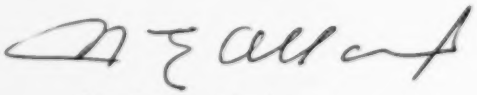
ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of the Saskatchewan Auto Fund for its statement of financial position at December 31, 2002 and their change in the statement of operations and Rate Stabilization Reserve for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Canadian insurance regulatory practice required that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the financial statements fairly present the results of the valuation.



Jean-Luc E. Allard
Fellow, Canadian Institute of Actuaries

February 14, 2003

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the statement of financial position of the Saskatchewan Auto Fund as at December 31, 2002 and the statements of operations and Rate Stabilization Reserve and cash flows for the year then ended. These financial statements are the responsibility of the management of Saskatchewan Government Insurance as administrators of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada

February 14, 2003

STATEMENT OF FINANCIAL POSITION

December 31	2002	2001
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 76,545	$ 68,164
Accounts receivable (note 4)	102,072	83,758
Deferred policy acquisition costs	14,083	12,930
Prepaid expenses and inventories	4,106	3,765
Investments (note 5)	677,879	655,831
Net investment in capital leases (note 6)	5,689	6,198
Capital assets (note 7)	42,305	41,276
	$ 922,679	$ 871,922
Liabilities		
Accounts payable and accrued charges	$ 12,426	$ 18,259
Premium taxes payable	24,409	23,271
Provision for unpaid claims (note 8)	665,522	627,479
Unearned premiums	217,498	200,944
	919,855	869,953
Rate Stabilization Reserve	**2,824**	**1,969**
	$ 922,679	$ 871,922

Commitments (note 14)
(see accompanying notes)

STATEMENT OF OPERATIONS AND RATE STABILIZATION RESERVE (DEFICIT)

year ended December 31	2002	2001
	(thousands of $)	
Premiums written	$ 486,443	$ 463,838
Premiums earned	$ 470,022	$ 452,659
Claims incurred	435,312	419,995
Issuer fees	15,376	14,558
Premium taxes	23,586	22,637
Administrative expenses	28,429	25,495
Traffic safety programs	9,668	8,686
Total claims and expenses	**512,371**	491,371
Underwriting loss	**(42,349)**	(38,712)
Investment earnings (note 9)	26,082	41,590
Other income (note 10)	17,122	16,162
Increase to Rate Stabilization Reserve	**855**	18,840
Rate Stabilization Reserve (deficit), beginning of year	1,969	(16,871)
Rate Stabilization Reserve, end of year	$ 2,824	$ 1,969

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	2002	2001
	(thousands of $)	
Cash provided by operating activities		
Net increase to Rate Stabilization Reserve	$ 855	$ 18,840
Non-cash items:		
Amortization	4,911	5,138
Realized gain on disposal of investments and capital assets	(1,222)	(6,471)
Loss (income) from equity investment	1,007	(10)
Investment write downs	9,780	1,471
Change in non-cash operating items (note 11)	30,094	41,917
	45,425	60,885
Cash used for investing activities		
Purchases of investments	(924,581)	(867,798)
Proceeds on sale of investments	875,756	792,120
Repayment of capital leases	509	461
Purchases of capital assets	(4,882)	(13,815)
Proceeds on disposal of capital assets	96	42
	(52,902)	(88,990)
Decrease in cash and cash equivalents	**(7,477)**	(28,105)
Cash and cash equivalents:		
Balance, beginning of year	28,838	56,941
Balance, end of year	**21,361**	28,838
Plus treasury bills greater than 91 days to maturity from acquisition date	**55,184**	39,326
Cash and treasury bills per statement of financial position	**$ 76,545**	$ 68,164

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

1. STATUS OF THE FUND

The Saskatchewan Auto Fund (the Fund) was established effective Jan. 1, 1984 by an amendment to the *Automobile Accident Insurance Act*.

The Rate Stabilization Reserve is held on behalf of Saskatchewan's motoring public and is not used for the payment of any general dividends.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Deferred policy acquisition costs

Premium taxes and issuer fees are deferred and then charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, shares, pooled funds and real estate are valued at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

The Fund owns 7% interest in SGI CANADA Insurance Services Ltd. (SCISL), a company formed to sell insurance products in provinces other than Saskatchewan. The investment in SCISL is recorded on the equity basis, whereby the carrying value of the investment is adjusted by the Fund's share of SCISL's earnings or losses and reduced by cash received.

The Fund has a one-third interest in a real estate joint venture, which is accounted for using proportionate consolidation. The resulting income producing property is amortized over its estimated useful life of 50 years on a sinking fund basis. The other interests in this joint venture are SaskPen and a private sector investor. SaskPen is a real estate corporation owned by Province of Saskatchewan employee pension plans.

Investments are written down when there is a decline in value that is other than temporary.

Capital leases

Investment earnings related to direct financing leases are recognized in a manner that produces a constant rate of return on the investment in each lease. The net investment in leases is composed of net minimum lease payments less unearned finance income.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Buildings and improvements	2½ - 5%
Computer hardware, system costs and other equipment	20 - 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

4. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 2.8% (2001 – 2.9%) and an average remaining term to maturity of 54 days (2001 – 80 days). The Fund's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2002	2001
Financed premiums receivable	$ 71,906	$ 62,564
Motor vehicles driver receivable	9,800	1,065
Due from Saskatchewan Finance	5,172	3,414
Accrued investment income	4,296	4,493
Licence issuers receivable	4,037	4,459
Amount recoverable on paid claims	3,732	3,177
Due from associated companies	2,417	3,906
Other	712	680
Total accounts receivable	$ 102,072	$ 83,758

5. INVESTMENTS

The carrying value and fair value of the Fund's investments are as follows:

	(thousands of $)			
	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds and debentures	$ 299,280	$ 311,666	$ 294,632	$ 302,002
Pooled bond fund	143,012	147,395	132,827	135,359
Common shares	142,996	156,208	139,233	168,815
Pooled equity fund	36,869	33,149	32,903	26,723
Mortgages	45,385	47,753	44,195	45,761
Income producing property	9,833	9,833	10,530	9,833
	677,375	706,004	654,320	688,493
Investment in SGI CANADA Insurance Services Ltd.	504	504	1,511	1,511
Total investments	$ 677,879	$ 706,508	$ 655,831	$ 690,004

The income producing property consists of land and buildings with costs of $1,451,000 (2001 – $1,451,000) and $9,000,000 (2001 – $9,617,000) respectively and accumulated amortization of $618,000 (2001 – $538,000).

Details of significant terms and conditions, exposures to interest rate and credit risks on investments are as follows:

(i) Bonds and debentures:
The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	(thousands of $)			
	2002		2001	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
After one through five	$ 88,962	4.7%	$ 63,209	5.5%
After five	73,279	5.7%	95,713	5.9%
Canadian provincial & municipal:				
After one through five	12,433	5.9%	19,453	6.0%
After five	36,298	6.0%	28,355	6.2%
Canadian corporate:				
One or less	—	—	500	5.8%
After one through five	49,616	6.2%	38,874	6.6%
After five	38,692	7.0%	48,528	7.1%
Total bonds & debentures	$ 299,280		$ 294,632	

Included in 2001 bonds and debentures above are bonds denominated in United States dollars with a carrying value $732,000. Principal and interest was receivable on a semi-annual basis in United States dollars. In order to minimize the risk of foreign exchange fluctuations, the Fund had hedged this risk in 2001 by purchasing United States dollar forward exchange contracts. No bonds and debentures denominated in United States dollars are included above for 2002.

(ii) Pooled bond fund:
The Fund owns units in a Canadian pooled bond fund that has no fixed interest rate. Its returns are based on the success of the fund manager and future interest rates.

(iii) Pooled equity fund:
The Fund owns units in an international pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.7% (2001 - 1.8%).

Common shares include $33,877,000 (2001 - $35,299,000) denoted in United States dollars.

The Fund's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Fund's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with an average effective interest rate of 7.6% (2001 – 7.4%) with an average maturity of 4.5 years (2001 – 5.4 years). Principal and interest is receivable on a monthly basis.

6. NET INVESTMENT IN CAPITAL LEASES

One of the Fund's capital leases is a 63% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The related party total minimum lease payments receivable is $8,205,000 (2001 - $9,200,000) and unearned income is $2,637,000 (2001 – $3,218,000).

Each lease transfers substantially all of the benefits and risks incident with the ownership of the property to the lessee. The Fund's total net investment in capital leases includes the following:

	(thousands of $)	
	2002	2001
Total minimum lease payments receivable ($1,106,000 per year)	$ 8,334	$ 9,440
Unearned income	(2,645)	(3,242)
Net investment in capital lease	$ 5,689	$ 6,198

The fair value of the net investment in capital leases is $7,068,000 (2001 – $7,055,000).

7. CAPITAL ASSETS

The components of the Fund's investment in capital assets, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 7,119	$ —	$ 7,119	$ 6,973
Buildings and improvements	44,512	13,397	31,115	28,619
Computer hardware, system costs and other equipment	27,209	23,138	4,071	5,684
Total	$ 78,840	$ 36,535	$ 42,305	$ 41,276

Amortization for the year is $3,764,000 (2001 – $3,943,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:
The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Fund at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the balance sheet date.

Factors used to estimate the provision include: the Fund's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as damage claims tend to be more reasonably predictable than long-tail claims such as long-term disability and liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Auto Fund settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Fund provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total $24,629,000 (2001 – $24,623,000).

Included in the provision for unpaid claims are discounted amounts for injury accident benefits in the amount of $312,842,000 (2001 – $288,470,000). These claims have been discounted using a rate of 2.5% to 6% (2001 – no change) to take account of the time value of money and include a provision for adverse development.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $)	
	2002	2001
Net unpaid claims - beginning of year	$ 627,479	$ 586,848
Payments made during the year relating to prior year claims	(136,617)	(141,753)
Excess relating to prior year estimated unpaid claims	(19,990)	(9,673)
Net unpaid claims for claims of prior years	470,872	435,422
Provision for claims occurring in the current year	194,650	192,057
Net unpaid claims - end of year	$ 665,522	$ 627,479

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)	
	2002	2001
Injury accident benefits	$ 488,928	$ 452,503
Injury liability	121,263	121,893
Damage	55,331	53,083
Total	$ 665,522	$ 627,479

9. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2002	2001
Interest and dividends	$ 33,114	$ 34,874
Realized gains on sale of investments	1,216	6,473
Income from income producing property, net of operating costs of $775,000 (2001 – $805,000)	935	869
Income from capital leases	597	645
Investment write downs	(9,780)	(1,471)
Total investment earnings	$ 26,082	$ 41,390

Cash inflows from the income producing property are $750,000 (2001 – $624,000).

10. OTHER INCOME

The Fund operates a salvage division in order to maximize the derived economic value of salvageable vehicles, vehicle parts and materials available through the claim settlement process. In 2002, total salvage sales were $24,410,000 (2001 – $21,841,000); gross earnings on sales were $8,094,000 (2001 – $7,304,000); and net earnings were $4,535,000 (2001 – $4,144,000). The net earnings of the salvage division are included in other income.

The Fund offers a Short-Term Vehicle Registration and Insurance plan which allows the motoring public to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows the motoring public to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance. Included in other income is $12,587,000 (2001 – $12,018,000) for fees charged to users of these plans.

11. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2002	2001
Change in non-cash operating items:		
Accounts receivable	$ (18,314)	$ (14,969)
Deferred policy acquisition costs	(1,153)	(912)
Prepaid expenses and inventories	(341)	91
Accounts payable and accrued charges	(5,833)	3,081
Premium taxes payable	1,138	1,847
Provision for unpaid claims	38,043	40,631
Unearned premiums	16,554	12,148
	$ 30,094	$ 41,917

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	**2002**	2001
Accounts receivable	$ 5,210	$3,444
Deferred policy acquisition costs	10,601	9,778
Investments	4,276	5,869
Accounts payable and accrued charges	774	438
Premium taxes payable	24,409	23,271
Provision for unpaid claims	501	1,749
Unearned premiums	2,721	2,325
Premiums written	6,286	5,549
Premiums earned	6,074	5,416
Investment earnings	(710)	430
Claims incurred	21,016	17,272
Premium taxes	23,586	22,637
Administrative expenses	2,144	2,011
Traffic safety programs	1,746	1,774

Saskatchewan Government Insurance (SGI) acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by SGI are allocated to the Fund and SGI directly or on the basis of specific distributions. Amounts incurred by SGI and charged to the Fund were $75,983,000 (2001 – $71,271,000) and accounts receivable are $2,417,000 (2001 – $3,059,000).

Other related party transactions are described separately in the notes.

13. FAIR VALUES

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
(a) cash and treasury bills
(b) accounts receivable
(c) accounts payable and accrued charges
(d) premium taxes payable

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:
(a) bonds and debentures
(b) common shares

(iii) For the following financial instruments the fair values are considered to approximate quoted market values of the underlying investments, which is normally the current bid price:
(a) pooled bond fund
(b) pooled equity fund

(iv) Mortgages
The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(iv) Net investment in capital lease
The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(v) Investment in SGI CANADA Insurance Services Ltd.
The fair value of the investment in SGI CANADA Insurance Services Ltd. is considered to approximate book value.

(vi) Provision for unpaid claims
The fair value of the provision for unpaid claims has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

14. COMMITMENTS

The Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with research and rehabilitation for those involved in automobile accidents. The funding to be provided over the next five years is anticipated to be $63.8 million.

15. SUBSEQUENT EVENTS

Effective Jan. 1, 2003, the Fund is offering Saskatchewan motorists a choice of personal auto injury insurance coverage. Saskatchewan residents may choose to remain with No Fault Coverage or opt for Tort Coverage.

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